

Message Text

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ACTION XMB-04

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 /051 W

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R 302202Z SEP 76

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 4991

INFO AMCONSUL SAO PAULO

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DEPT PASS EXIMBANK

SAO PAULO FOR CRAFTON

E.O. 11652: N/A

TAGS: EFIN, VE

SUBJECT: CORPORACION VENEZOLANA DE FOMENTO

REF: STATE 217659

1. SUMMARY-REORGANIZATION OF CVF LIKELY TO INCLUDE
REDUCTION IN STAFF AND REORIENTATION TOWARD MEDIUM-SIZED
PROJECTS IN SELECTED INDUSTRIAL SECTORS. CVF REPUTA-
TION HAS SUFFERED FROM PAST MISMANAGEMENT, BUT
ITS FINANCIAL STATUS APPARENTLY SOUND AND ITS RESTORATION
IS BEING BACKED STRONGLY BY THE GOV. EMBASSY REQUEST
FOR BALANCE SHEET DENIED. RECOMMEND VP CRAFTON EXPLORE FURTHER
DURING VISIT NEXT MONTH. END SUMMARY.

2. ABOUT SIX MONTHS AGO PRESIDENT PEREZ APPOINTED SEVERAL
NEW DIRECTORS OF CVF WITH INSTRUCTIONS TO SUBMIT REORGANI-
ZATION PLAN TO HIM WITHIN SIX MONTHS. EMBASSY SOURCES
INDICATE THERE INDEED HAS BEEN MISMANAGEMENT AND CORRUP-
TION AND CVF REPUTATION HAS BEEN SERIOUSLY TARNISHED.

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3. EMBOFF CALLED ON CVF DIRECTOR JOHN RAFAEL, FORMERLY VICE MINISTER FOREIGN AFFAIRS AND AMBASSADOR EEC. HE REPORTED THAT HIS WORKING GROUP SUBMITTED STUDY AND REORGANIZATION RECOMMENDATIONS TO PRESIDENT. HE EXPECTS PUBLICATION OF FULL REPORT IN GACETA OFICIAL THIS WEEK. IF ACCEPTED, THESE RECOMMENDATIONS WOULD RESULT IN A DRASTIC REDUCTION IN PERSONNEL AND REORIENTATION OF CVF'S OPERATIONS. IT WOULD BECOME IN EFFECT ANOTHER "FINANCIERA DEL ESTADO" OR GOVERNMENT BANK AND WOULD GET OUT OF THE BUSINESS OF FORMULATING AND PROMOTING INDUSTRIAL PROJECTS.

4. SPECIFICALLY, CVF WOULD ISSUE LOANS TO COVER THE GAP BETWEEN THE MAJOR PRODUCTIVE SECTORS (SIDOR, EDELCA, ETC.) FINANCED BY THE VENEZUELAN INVESTMENT FUND AND CREDITS AUTHORIZED UNDER PUBLIC CREDIT LAW (CARACAS A-129) AND THE SMALL/MEDIUM ENTERPRISE LOANS GRANTED BY CORPOINDUSTRIA, FUNDACOMUN, ETC. CVF WOULD CONCENTRATE LENDING OPERATIONS IN RANGE OF 100 TO 500 MILLION BOLIVARES TO PRIVATE ENTERPRISES IN THE METALWORKING, CHEMICAL AND OTHER INDUSTRIAL SECTORS. ADDITIONALLY, IT WOULD FINANCE THE CONVERSION OF FOREIGN EQUITY HOLDINGS TO LOCAL OWNERS AS REQUIRED BY LEGISLATION IMPLEMENTING THE ANDEAN PACT. FINALL, CVF WOULD CONTINUE TO ISSUE "AVALES" TO FOREIGN LENDING AGENCIES GUARANTEEING REPAYMENT OF DEBTS INCURRED BY BOTH PRIVATE COMPANIES AND STATE ENTERPRISES.

5. RAFAEL EXPRESSED FULL CONFIDENCE THAT CVF WOULD ARISE STRONGER THAN EVER, WITH FULL SUPPORT FROM EXECUTIVE BRANCH AND RESPONSIBLE FOR A LARGE NUMBER OF NEW PROJECTS. EMBASSY HAD REQUESTED COPY OF BALANCE SHEET WHEN ASKING FOR APPOINTMENT. RAFAEL INDICATED HE WAS UNAWARE THIS REQUEST AND WHEN EMBOFF REITERATED, HE REPLIED QUOTE THIS NEVER HAS BEEN REQUESTED BEFORE UNQUOTE. EMBOFF POINTED OUT REQUEST ORIGINATED WITH EXIMBANK, BUT RAFAEL INSISTED THAT CVF IS STRONG FINANCIAL CONDITION, HOLDING SUBSTANTIAL EQUITY IN SUCH LEADING CORPORATIONS AS BANCO INDUSTRIAL, CADAFE, ETC.

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5. COMMENT-THE CVF'S REPUTATION AS A FINANCIAL AND DEVELOPMENT INSTITUTION HAS SUFFERED SEVERALY. IT IS TRUE, AS RAFAEL SAID, THAT THE INSTITUTION HOLDS SUBSTANTIAL FINANCIAL ASSETS, BUT THERE IS LITTLE CONFIDENCE IN BANKING CIRCLES THAT THE ORGANIZATION CAN REALLY ACHIEVE THE SORT OF PROFESSIONAL COMPETENCE AND INDEPENDENCE FROM POLITICAL INFLUENCE WHICH WILL INSPIRE CONFIDENCE ABROAD. NEVERTHELESS, PRESIDENT PEREZ HAS

APPOINTED COMPETENT OFFICIALS TO HEAD THE CVF AND THE
GOV APPEARS DETERMINED TO GIVE STRONG BACKING TO THE
INSTITUTION.

7. APPARENTLY, CVF WILL CONTINUE ITS ROLE AS OFFICIAL
GOVERNMENT GUARANTOR FOR FOREIGN CREDITS AFTER ITS
REORGANIZATION IS COMPLETED. IN VIEW OF THIS AND THE
LACK OF ANY ADEQUATE SUBSTITUTE, THE EMBASSY RECOMMENDS
THAT EXIMBANK TAKE NO FURTHER ACTION UNTIL THE NEW ROLE
OF CVF BECOMES CLEARER. CRAFTON MAY WISH TO EXPLORE
THIS MATTER FURTHER DURING HIS FORTHCOMING VISIT.
VAKY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL COOPERATIVES, REORGANIZATIONS, LOAN GUARANTEES
Control Number: n/a
Copy: SINGLE
Draft Date: 30 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976CARACA11728
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760372-1006
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976094/aaaaacvh.tel
Line Count: 127
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION XMB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 217659
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUL 2004 by ShawDG>; APPROVED <27 OCT 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CORPORACION VENEZOLANA DE FOMENTO
TAGS: EFIN, VE, CVF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006